



The ALS Association - Texas Chapter

Financial Statements
January 31, 2019

The ALS Association – Texas Chapter

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Independent Auditors' Report

To the Board of Directors of
The ALS Association - Texas Chapter

We have audited the accompanying financial statements of The ALS Association - Texas Chapter (Organization) which comprise the statement of financial position as of January 31, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted accounting standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

The predecessor auditor was unable to obtain sufficient appropriate audit evidence concerning the amount of durable medical equipment reported as assets at January 31, 2018 because sufficient controls were not exercised to track inflows and outflows of such equipment at various warehouse locations.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of The ALS Association - Texas Chapter as of January 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Correction of an Error

As described in Note 3 to the financial statements, the Organization's net assets as of February 1, 2018 were restated to correct the fair value of donated durable medical equipment reported as assets. Our opinion is not modified with respect to that matter.

Sutton Frost Cary

A Limited Liability Partnership

Arlington, Texas
August 30, 2019

The ALS Association - Texas Chapter
Statement of Financial Position
January 31, 2019

Assets

Current assets:	
Cash	\$ 1,118,635
Contributions receivable	24,760
Prepaid expense and deposits	8,954
Donated durable medical equipment	<u>625,372</u>
Total assets	<u><u>\$ 1,777,721</u></u>

Liabilities and Net Assets

Current liabilities:	
Accounts payable and accrued liabilities	\$ 69,525
Due to the National ALS	111,797
Note payable, net	39,888
Deferred revenue	<u>37,500</u>
Total current liabilities	258,710
Noncurrent liabilities:	
Note payable, net of current portion	<u>153,430</u>
Total liabilities	<u>412,140</u>
Net assets:	
Without donor restrictions	1,338,145
With donor restrictions	<u>27,436</u>
Total net assets	<u>1,365,581</u>
Total liabilities and net assets	<u><u>\$ 1,777,721</u></u>

The ALS Association - Texas Chapter
Statement of Activities
Year Ended January 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Special events, net of \$206,843 in direct benefits to donors	\$ 1,585,572	\$ -	\$ 1,585,572
Donated durable medical equipment	395,191	-	395,191
Contributions	877,656	-	877,656
Net assets released from restrictions	3,888	(3,888)	-
Total support and revenue	2,862,307	(3,888)	2,858,419
Expenses:			
Program services	1,914,418	-	1,914,418
General and administrative	190,057	-	190,057
Fundraising	386,613	-	386,613
Total expenses	2,491,088	-	2,491,088
Change in net assets	371,219	(3,888)	367,331
Net assets at beginning of year, as restated	966,926	31,324	998,250
Net assets at end of year	\$ 1,338,145	\$ 27,436	\$ 1,365,581

See notes to financial statements.

The ALS Association - Texas Chapter
Statement of Functional Expenses
Year Ended January 31, 2019

	Program Services	General and Administrative	Fundraising	Total
Employee compensation and related expenses	\$ 940,259	\$ 130,591	\$ 235,065	\$ 1,305,915
Medical equipment provided to clients	193,529	-	-	193,529
Payments to the National ALS (incl. \$50,821 for research)	370,085	28,194	49,637	447,916
Office	50,690	7,041	48,337	106,068
Occupancy	92,652	12,868	23,163	128,683
General grants and support	32,490	-	-	32,490
Professional fees	3,262	6,059	-	9,321
ALS clinic support	117,000	-	-	117,000
Travel	72,234	-	18,058	90,292
Awards and prizes	-	-	44,264	44,264
Contract services	14,228	862	168,546	183,636
Insurance	3,991	554	998	5,543
Advertising and promotion	23,998	-	5,388	29,386
Interest	-	3,888	-	3,888
Total expenses	1,914,418	190,057	593,456	2,697,931
Less expenses included with revenues on the statement of activities				
Direct benefits to donors	-	-	(206,843)	(206,843)
Total expenses included in the expense section on the statement of activities	\$ 1,914,418	\$ 190,057	\$ 386,613	\$ 2,491,088

See notes to financial statements.

The ALS Association - Texas Chapter
Statement of Cash Flows
Year Ended January 31, 2019

Cash flows from operating activities:	
Change in net assets	\$ 367,331
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Imputed interest expense	3,888
Change in donated durable medical equipment	(230,875)
Changes in assets and liabilities:	
Contributions receivable	41,400
Prepaid expenses and deposits	8,517
Accounts payable and accrued liabilities	8,852
Due to the National ALS	(2,636)
Deferred revenue	37,500
	<hr/>
Net cash provided by operating activities	233,977
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Net increase in cash	233,977
Cash at beginning of year	884,658
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Cash at end of year	\$ 1,118,635
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See notes to financial statements.

The ALS Association - Texas Chapter

Notes to Financial Statements

1. Organization

The ALS Association - Texas Chapter (Organization) is a nonprofit corporation formed in 1994 and serves as the sole successor entity resulting from mergers among various regional chapters throughout the State of Texas. Our purpose is to discover treatments and a cure for ALS (amyotrophic lateral sclerosis, commonly known as “Lou Gehrig’s Disease”) and to serve, advocate for and empower people affected by ALS to live their lives to the fullest. We fulfill our mission by funding ALS research, supporting ALS certified centers, providing direct services such as durable medical equipment, communication and assistive devices, support groups, informational and referral services, and continuing the perpetual campaign to educate the public and raise awareness about this horrible disease.

The Organization is chartered by the The Amyotrophic Lateral Sclerosis Association (National ALS) and is one of approximately 40 chapters across the country.

The Organization’s mission is also carried on through services provided by the National ALS. In accordance with the terms of this relationship, the Organization is required to share a calculated portion of its revenue with the National ALS based on a percentage of contributions, excluding contributions restricted to research. This revenue sharing is calculated and paid quarterly.

The Organization is primarily supported by contributions from the general public, special event revenue and donated medical equipment.

2. Summary of Significant Accounting Policies

The accounting policies of the Organization conform to U.S. generally accepted accounting principles (GAAP). The more significant accounting policies of the Organization are described below.

Basis of Accounting

The Organization prepares the financial statements on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded as incurred.

The ALS Association - Texas Chapter

Notes to Financial Statements

Financial Statement Presentation

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions - Net assets not subject to donor-imposed restrictions. Net assets without donor or grantor restrictions may be designated for specific purposes by action of the board of directors.

Net assets with donor restrictions - Net assets subject to donor or grantor restrictions that will be met by actions of the Organization and/or the passage of time.

Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting the Organization to expend the income generated by the assets in accordance with the provisions of additional donor imposed stipulations or a board of directors approved spending policy. As of January 31, 2019, no such net asset restrictions existed.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Contributions whose restrictions are met in the same year the contributions are received are reported as net assets without donor restrictions. Expirations of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Financial Instruments and Credit Risk Concentrations

Financial instruments which are potentially subject to concentrations of credit risk consist principally of cash and contributions receivable. The Organization places cash with a high credit quality financial institution to minimize risk. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization has an uninsured bank balance of \$786,661 at January 31, 2019. The Organization has not experienced any losses on such assets.

Contributions receivable are unsecured and are due from various donors. The Organization continually evaluates the collectability of contributions and maintains allowances for potential losses, if considered necessary. At January 31, 2019, the Organization estimates that no allowance for uncollectible receivables was necessary.

At January 31, 2019, 71% of contributions receivable was due from two donors.

The ALS Association - Texas Chapter

Notes to Financial Statements

Revenue Recognition

Contributions are generally recorded only upon receipt, unless evidence of an unconditional promise to give (pledge) has been received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected and reduced by an allowance for uncollectible amounts. Conditional promises to give are recognized when the conditions to which they are subject are met.

Special event revenue is recognized at the time of the event. Cash received in advance of the event is reported as deferred revenue.

Donated Durable Medical Equipment

The Organization receives donated durable medical equipment (DME), which is distributed to qualified individuals. Donated DME is recorded at estimated fair value as in-kind contribution revenue and inventory at the time the items are available for intended use. Donated DME with insignificant value or that cannot be distributed to clients is not recorded. The fair value of items contributed and made ready for use during the year ended January 31, 2019 totaled \$395,191.

When the equipment is distributed to an eligible consumer, the item is recognized as expense and released from inventory. The estimated value of DME distributed to eligible consumers during the year ended January 31, 2019 totaled \$193,529 and is reported as medical equipment provided to clients in the accompanying statement of functional expenses.

All other donated materials and equipment are recognized as contributions at their estimated fair values at date of receipt. Contributions of services are recorded at estimated fair value if the services received create or enhance nonfinancial assets or require specialized skills and would typically need to be purchased if not provided by donation. Many individuals volunteer their time and perform a variety of nonprofessional tasks that assist the Organization in delivering its programs and running fundraising events. The value of these services is not reflected in the financial statements as they do not meet the requirements for recognition in accordance with GAAP.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense for the year ended January 31, 2019 totaled \$29,386 and is included in advertising and promotion expense in the accompanying statement of functional expenses.

The ALS Association - Texas Chapter

Notes to Financial Statements

Allocation of Functional Expenses

The costs of providing the various program services and supporting activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present expenses by function and natural classification. Certain costs are charged directly to the functions they benefit. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include employee compensation and related expenses, office, occupancy, travel, contract services, insurance, and advertising and promotion which are allocated on the basis of estimates of employee time and effort. The functional expense allocation of the revenue sharing expense is based on allocation information provided by the National ALS. All other expenses have been directly allocated.

Federal Income Taxes

The Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code (IRC) and has not been classified as a private foundation as defined in the IRC. Income generated from activities unrelated to the Organization's exempt purposes is subject to tax under IRC Section 511. The Organization had no unrelated business income for the year ended January 31, 2019. Accordingly, no provision has been made for federal income tax in the accompanying financial statements.

GAAP requires the evaluation of tax positions taken in the course of preparing the Organization's tax return and recognition of a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Organization, and has concluded that as of January 31, 2019, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Estimates and Assumptions

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

The ALS Association - Texas Chapter

Notes to Financial Statements

New Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASU's) to the FASB's Accounting Standards Codification.

The Organization considers the applicability and impact of all ASU's. ASU's not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Organization's financial position and change in net assets.

In 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The entity should recognize revenue when (or as) the entity satisfies a performance obligation. Not-for-profit entities must consider whether certain arrangements are fully or partially subject to Topic 606. Examples include, but are not limited to memberships, sponsorships, grants and contracts. Further, judgment is required to bifurcate transactions between contribution and exchange components. The effective date of ASU 2014-09 is for annual periods beginning after December 15, 2018 for the majority of not-for-profit organizations.

In 2018, the FASB issued ASU 2018-08 *Clarifying the Scope and Accounting Guidance for Contributions Received and Made* to address difficulty and diversity in practice among not-for-profit entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) Subject to Topic 958, Not-for-Profit Entities or as exchanges (reciprocal transactions) subject to Topic 606 and (2) determining between conditional and unconditional contributions. This ASU applies to all entities that receive or make contributions. The term used in the presentation of financial statements to label revenue (for example, contribution, grant, donation) that is accounted for within Topic 958 is *not a factor* for determining whether an agreement is within the scope of that guidance. The standard is effective for annual periods beginning after December 15, 2018 for the majority of not-for-profit entities. The changes in this standard should generally be applied on a retrospective basis in the year that it is first applied.

In 2016, the FASB issued its leasing standard in ASU 2016-02, *Leases (ASC Topic 842)* for both lessees and lessors. Under its core principle, a lessee will recognize right-of-use (ROU) assets and related lease liabilities on the statement of financial position for all lease arrangements with terms longer than 12 months. The pattern of expense recognition in the statement of activities will depend on a lease's classification. For not-for-profit organizations, the standard takes effect for fiscal years beginning after December 15, 2019.

The Organization is currently assessing the impact that adopting this new guidance will have on the financial statements.

The ALS Association - Texas Chapter

Notes to Financial Statements

Accounting Pronouncements Adopted

The Organization adopted FASB ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities* as of and for the year ended January 31, 2019. As a result, the major changes applicable for the Organization include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) requiring the disclosure of the allocation methods used to allocate costs, (c) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources and (d) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The adoption of this ASU had no effect on net assets or the change in net assets presented for the year ended January 31, 2019.

3. Prior Year Restatement

During 2019, management determined that the value of durable medical equipment totaling \$3,486,104 was overstated at January 31, 2018. The 2018 financial statements have been restated to correct the error. The correction of the error decreased durable medical equipment and net assets without donor restrictions by \$3,486,104.

4. Note Payable

The Organization received an unsecured, interest-free loan from the National ALS in August 2012 totaling \$295,149. Payments consisting of the greater of \$15,000 or 1% of annual fiscal-year revenues are due by January 31 of each year until January 31, 2033, when the remaining principal must be repaid. Interest is imputed at a rate of 2.24% annually. As of January 31, 2019, the loan had a principal balance of \$220,754 less a discount of \$27,436 for a net payable of \$193,318. Maturities for each of the subsequent five years and thereafter were as follows as of January 31, 2019:

2020	\$ 39,888
2021	15,000
2022	15,000
2023	15,000
2024	15,000
Thereafter	<u>120,866</u>
	<u><u>\$ 220,754</u></u>

5. Net Assets With Donor Restrictions

Net assets at January 31, 2019, included amounts restricted by time totaling \$27,436, resulting from imputing interest in the note payable.

The ALS Association - Texas Chapter

Notes to Financial Statements

6. Commitments

The Organization leases three office facilities and equipment under noncancelable operating lease agreements expiring at various dates through January 2023. Future minimum lease payments are as follows for the years ending January 31:

2020	\$	80,973
2021		44,913
2022		17,368
2023		2,400

Rent expense totaled \$120,470 for the year ended January 31, 2019.

7. Liquidity and Availability of Resources

At January 31, 2019, the Organization has \$1,143,395 of financial assets available within one year for general expenditures consisting of cash of \$1,118,635 and contributions receivable of \$24,760. Contributions receivable are expected to be collected within one year or less. None of the financial assets are subject to donor or other contractual restrictions by time or purpose, that make them unavailable for general expenditure. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Organization targets to have four months general operating cash on hand as outlined by the National ALS.

8. Related Party Transactions

The Organization makes revenue sharing payments to the National ALS based on a percentage of contributions, excluding contributions made for research which are given in full to the National ALS. During the year ended January 31, 2019, revenue sharing expense, contributions for research and other costs to the National ALS totaled \$346,865, \$50,821 and \$50,230, respectively and are reported as payments to the National ALS in the accompanying statement of functional expenses. As of January 31, 2019 the Association has a payable to the National ALS of \$111,797 reported as due to the National ALS in the accompanying statement of financial position. The Organization has a note payable to the National ALS at January 31, 2019 totaling \$220,754.

9. Subsequent Events

The Organization has evaluated subsequent events through the date the financial statements were available to be issued and concluded that no additional disclosures are required.